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### **MEMORANDUM**

**TO:** Representative Craig Fitzhugh  
Senator Doug Henry  
Representative Les Winningham  
Senator Jamie Woodson

**FROM:** Richard G. Rhoda 

**SUBJECT:** THEC Tuition Model

**DATE:** December 22, 2005

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Chapter 503 of the 2005 Public Acts (2005-06 Appropriation Bill), provides that:

“The Tennessee Higher Education Commission shall, in conjunction with the Tennessee Board of Regents and the University of Tennessee, coordinate the creation of undergraduate tuition models for public higher education in Tennessee. The models shall include at least a five year projection of potential undergraduate tuition increases at public institutions of higher education including Tennessee Technology Centers. These models shall consider the impact of undergraduate student enrollment growth, the impact of Tennessee Education Lottery Scholarship, need-based financial aid programs, anticipated state appropriations, estimated maintenance and operational costs and other fixed costs, salary and benefit and technology costs, maintaining competitiveness with the respective institutions’ peer institutions, as well as other public and private institutions and any other relevant factors. This analysis shall also include an evaluation of the growth in higher education costs in relation to the consumer price index. This report shall be completed by December 31, 2005, and shall be submitted to the Chairs of the House and Senate Finance, Ways and Means and Education Committees.”

The Tennessee Higher Education Commission is pleased to respond to the legislative directive with the accompanying five year tuition model. This is a dynamic model which uses actual data and allows for multiple scenarios to be evaluated that consider various combinations of changes in state appropriation

and enrollment, as well as peer institution revenue pressures and total revenue needs as calculated in the funding formula.

It should be noted that there is no standard, widely accepted approach to tuition modeling. In fact, rarely have states undertaken the development of a similar model as the one presented here. The model represents the collective work of the THEC, the University of Tennessee and the Tennessee Board of Regents, with input and assistance from staff of the Southern Region Education Board (SREB) and the State Higher Education Executive Officers (SHEEO).

In the way of context, the tuition model was developed during a period of change in the financial landscape in higher education. In 2005, average tuition and fees at a Tennessee public university, community college and technology center were \$4,650, \$2,393 and \$1,984 respectively, and had increased over 60 percent during the last five years. Continuation budgets of state appropriations with no new operating funds for two consecutive years followed a nine percent budget reduction in 2003-04. The decline in inflation adjusted appropriations in recent years produced an environment where Tennessee universities now collect more revenue from students than from the state. In spite of recent tuition increases, Tennessee is still a moderate fee state, though funding for need-based student financial aid is well below national averages.

The tuition model offers higher education and state government leaders a tool to better understand the relationship between tuition revenue and state appropriations. It also allows for the impact of enrollment growth and peer institution revenue growth to be considered. The model and other considerations will impact annual tuition recommendations. The model is a planning tool that illuminates how the various fiscal factors impact potential tuition decisions. Because it is dynamic, the model allows for immediate feedback on a range of scenarios and potential fiscal conditions. Updated annually, it will be a valuable planning tool as higher education continues to respond to a changing fiscal landscape.

The availability of student financial aid is an important consideration. Along with state appropriations and student tuition, financial aid contributes greatly to affordability of higher education. However, in the most recent decade, the criteria used to determine student eligibility has begun to shift from students' financial need to their academic performance. Tennessee is reflective of this national trend due to the new lottery scholarship program. Tennessee's need-based student financial aid program, the Tennessee Student Assistance Award (TSAA), annually awards approximately \$42 million in need based aid. Because the lottery scholarship program is primarily merit-based, the TSAA is the major program that addresses student financial need in Tennessee. As tuition rates increase, funding for the TSAA program becomes crucial to maintain student access.

Attached are two documents to supplement the tuition model. First is a narrative that briefly explains the model methodology and development. This section includes a discussion of the Consumer Price Index, its appropriateness for higher education, and the Higher Education Cost Adjustment, developed by SHEEO, that

is used in the tuition model. Also attached is a sample output summary of the tuition model. The numbers included in this output are provided as an example; a specific scenario that includes estimates for enrollment growth, state appropriations changes, and peer institution revenue growth can be determined by the user.

We would like to thank the Advisory Committee which assisted in the model development.

- Bob Adams, Vice Chancellor for Business and Finance, TBR
- Sylvia Davis, Vice President for Administration and Finance, UT
- David Gregory, Vice Chancellor for Administration and Facilities, TBR
- Bob Levy, Vice President for Academic Affairs, UT
- Joe Marks, Director, Education Data Services, SREB
- David Wright, Senior Research Analyst, SHEEO

THEC is pleased to present the five-year tuition model and will respond to questions concerning the model, its development and potential use. The model was presented at the November THEC meeting, and can be accessed through the THEC website at the following location:

[http://www.state.tn.us/thec/2004web/division\\_pages/fiscal\\_pages/fiscal\\_analysis.html](http://www.state.tn.us/thec/2004web/division_pages/fiscal_pages/fiscal_analysis.html)

Attachments